



**Investment Office**

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**February 14, 2006**

**AGENDA ITEM 9b**

**TO: MEMBERS OF THE INVESTMENT COMMITTEE**

**I. SUBJECT:** Selection of Master Custodian

**II. PROGRAM:** Total Fund

**III. RECOMMENDATION:** Information Only

**IV. ANALYSIS:**

At the May 16, 2005 Investment Committee meeting, staff presented an information item to the Committee informing it that, consistent with Board approved policy, Investment Office staff were prepared to initiate a Request for Proposal (RFP) for Master Custody Services.

The scope of services of the Master Custodian includes:

- a) Custody over securities,
- b) Settlement of purchases and sales of securities,
- c) Daily pricing and accounting, including computing daily net asset values, for all applicable portfolios,
- d) Identification and collection of income which are due and payable on assets held,
- e) Management information and accounting systems,
- f) Performance reports and analytics,
- g) Information retrieval services, and
- h) Other custodial related services.

To assist in the RFP development and review process, staff retained R.V. Kuhns and Associates, a member of the general pension consultant pool.

Over a period of several months, staff from the Investment Office and R.V. Kuhns met with areas impacted by the services provided by the Master Custodian. Investment Office staff established a cross-divisional team, comprised of staff from the Investment Office, Fiscal Services Division, Information Technology Services Branch, Legal Office, and Operation Support Services Division, to develop various sections of the RFP including the services to be provided, minimum qualifications, and a comprehensive questionnaire.

The RFP required vendors to provide detailed responses regarding their core custody services; technology/system capabilities and support; sub-custodian network selection, monitoring, problem resolution, and termination processes; corporate action processes; cash/foreign exchange management; and third party/principal securities lending programs.

On August 15, 2005, CalPERS released the Master Custody Services RFP. By the October 5, 2005 due date, the system received proposals from six of the largest global custodians:

- Investors Bank & Trust,
- JP Morgan,
- Mellon Global,
- Northern Trust,
- State Street Bank & Trust (the incumbent), and
- The Bank of New York.

The RFP provided for a three-phase scoring process:

- Phase 1 – Technical Proposal Evaluation and Fee Proposal Scoring
- Phase 2 – First Interviews
- Phase 3 – On-Site Visits

The first phase, review of the technical and fee proposals, required scoring in several categories including Organization and Resources, Core Custodial Services, Cash Management, Technology, Transition, Third Party Lending, Performance Measurement, and fees. The four highest scoring vendors were selected to move forward.

The second phase consisted of vendor interviews at CalPERS headquarters. Staff conducted interviews with JPMorgan, Northern Trust, State Street Bank & Trust, and The Bank of New York between November 16, 2005 and November 18, 2005. A team of CalPERS Investment staff, in consultation with other interested CalPERS staff and project consultants, scored the interviews. The three vendors with the highest combined scores continued to the third phase, on-site visits.

A cross-divisional team conducted on-site visits between December 5, 2005 and December 7, 2005, with Northern Trust, State Street Bank & Trust, and The Bank

of New York. After the on-site visits, a team of CalPERS Investment staff scored the vendors on the five areas that were reviewed during the on-site visits: Organization, Performance, Accounting, Transition, and Case Models.

The final selection of the Master Custodian was based on the total combined score through the three phases of the RFP. The score breakdown for the three finalists can be found on Attachment 1.

Based on the final scores, the CalPERS Investment Office has selected State Street Bank & Trust as the Master Custodian, subject to successful contract negotiations.

CalPERS appreciates and thanks the six firms who submitted proposals: Investors Bank & Trust, JPMorgan, Mellon, Northern Trust, State Street Bank & Trust, and The Bank of New York. The quality and detail of each proposal demonstrates the time and effort put forth by each firm. This effort impressed everyone involved in the master custody search process. The process also helped staff identify opportunities for improvement within our organization as well as with the overall master custody relationship.

## **V. STRATEGIC PLAN:**

Goal I. Exercise global leadership to ensure the sustainability of CalPERS' pension and health benefit systems.

Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits, and second, to minimize and stabilize contributions.

## **VI. RESULTS/COSTS:**

With the completion of the Master Custodian selection process, negotiations will begin to establish a contract for a term of three years with the option to extend the contract for up to two successive one-year periods. Current year base fees are \$10,477,636.00. The annual fee proposed by State Street Bank & Trust for the new contract period is \$4,000,000.00.

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Greg Hood  
Division Chief

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Anne Stausboll  
Interim Chief Investment Officer